MANAGEMENT DISCUSSION SECTION

Operator: [Operator Instructions.] And now I'll like to turn the call over to Mr. John Lowber, Chief Financial Officer. Thank you sir you may begin.

John M. Lowber, Chief Financial Officer, Senior Vice President, Treasurer, Secretary

Okay, thank you very much. Thank you all for taking the time to participate in our call today. I am John Lowber, the company's Chief Financial Officer, Ronald Duncan, our President and CEO is here with me, as is Bruce Broquet, our VP Finance, Fred Walker, who is our Chief Accounting Officer. We will all be available to participate in the Q&A session, which will follow my initial comments. If you do not have a copy of our detailed press release you can find it on our website. The conference is been recorded and will available for playback for 72 hours beginning at 4 pm Eastern Time today. The playback number is 1866-475-8043 with an access code of 7461. In addition to the conference call you may access the conference through the Internet. To access the call via net conferencing log on to our website www.gci.com and follow the instructions. The webcast will be available for replay over the next two weeks.

I will now read the usual cautionary statement of our forward-looking comments and then will get underway. Some of the statements made by GCI in this presentation are forward-looking in nature, actual results may differ from those projected in forward-looking statements, due to a number of factors. Additional information concerning such factors can be found in GCI's filings with the Securities and Exchange Commission.

We're reasonably pleased with the results for the second quarter, particularly with the performance of the long-distance segment. After a couple of arguably soft quarters, the long-distance segment came back pretty strong. Leading us to a new record with respect to revenues. The revenues totaled a record of 110.7 million for the quarter, surpassing our previous high of 108.9 million, recorded in the first quarter of 2004. You will recall that quarter included approximately 6 million in special projects revenues. The revenues were up 6.6% over the prior year quarter and were up almost a 4% percent on a sequential basis. We generated almost 5.3 million in net income, basic earnings of $0.10 per share, and EBITDA of approximately 36.4 million, just a few hundred thousand dollars short of a new quarterly record.

Long-distance revenues were up 5.5% year-over-year and EBITDA, including the usual MCI recovery was up approximately up 4.8%. Long-distance revenues were up 7% on a sequential basis and EBITDA was up almost 17% sequentially. The increases in EBITDA were accomplished in spite of a $0.5 million of bad debt reserve we recorded during the quarter related to our provision of satellite broadband services. We carried 347.6 million minutes during the quarter as compared to 293.8 million minutes a year ago and 302.5 million minutes during the first quarter of this year. That translates into minutes growth of more than 18% over the prior year and almost 15% sequentially. You may recall that I mentioned last quarter that minutes had trended up quite nicely in March. Those higher traffic levels continue to the quarter. Number of customers that made calls during June of this year increased over the prior year, but decreased slightly on a sequential basis. Active customers totaled 91,300, as compared to 90,700 a year ago and 91,800 during March. Our average rate per minute totaled 9.28 cents during the second quarter as compared to 10.4 cents in the prior year quarter, and 9.54 cents during the first quarter of this year.

Our average rate per minute was down almost 11% compared to last year and almost 3% when compared to the first quarter. Our long-distance margins dropped just 17 basis points when compared to the prior year in spite of the rate decreases and actually widened slightly on a sequential basis.

Access charges continued to drop and because we provide local services, we also avoid long-distance access charges when traffic originates or terminates on our own or leased facilities. Revenues from terrestrial and undersea fiber, satellite broadband, private line, and data services increased to 26.4 million as compared to 25.2 million in the prior year quarter. Revenues from these services increased 4.8% compared to last year and were flat sequentially. These revenues represented approximately 41% of long- distance revenues during the quarter.

Cable television. Cable and entertainment revenues were up 4.4% over the same quarter of 2004 and were up 1.5% on a sequential basis. Rates on an equivalent subscriber basis were up 4.4% to $81.75 compared to $78.27 a year ago, and were up 2.6% on a sequential basis. The increases in our revenues and rates per subscriber were due in part to continued deployment of digital and high-definition cable television and cable modems. Subscriber counts were up again this quarter. Basic subscribers totaled 137,428 at the end of the second quarter as compared to 135,173 at the end of the same quarter a year ago representing an increase of more than 2200 subscribers. On a sequential basis, we added more than 1300 subscribers. During the quarter we generally see an increase in our hotel customers. During the last couple years has more than compensated for the seasonal consumer disconnect that we normally experience with the arrival of the summer months.

EBITDA from our Cable operations totaled approximately 11 million for the second quarter versus 11.5 million for the same quarter of 2004 representing a decrease of approximately 4.5%. Second Quarter EBITDA was down approximately 5% on a sequential basis. Gross profit margins decreased by 354 basis points compared to prior year and 170 basis points sequentially. Prior period margins were enhanced by programming incentives that we recorded during those periods that did not recur this quarter.

Our cable modem penetration now stands at more than 60%. That is more than 60% of our consumer cable subscribers, are using our cable modem products. At quarters end we had almost 48,800 digital special interest subscribers, compared to the 38,800 we had a year ago and the 48,000 we had at the end of the prior quarter. We now offering digital programming in a large percentage of our markets, with some form of digital services available to more than 94% of homes passed. At quarters end we had approximately 7400 combination high-definition DVR boxes deployed in the Anchorage and Matanuska-Susitna Valley markets, representing an increase of approximately 800 units over third quarter.

Cable business also enjoys the benefit of 55% of the cable modem revenues generated by our internet access operations. Those revenues now have an annual run rate in excess of 25 million. We're in the process of expanding our cable footprint in the North Pole area in Fairbanks, which will add 1200 homes passed upon completion. During the quarter we added a community of Homer to our list of locations where we provide digital programming. We also added a couple of more channels to our high-definition programming and now offer a dozen channel of HD. We expect to begin offering a couple of channels and local programming in the HD format before the year results.

Local services. Our Local Services revenues increased approximately 13.4% over the second quarter of last year and were down 4.5% sequentially. I mentioned last quarter that the first quarter local services revenues were enhanced by approximately 1.2 million and out-of-period USF revenues resulting in increases of USF rates. A year ago, we generated approximately 150,000 of EBITDA for local services. During the recently completed quarter, local services contributed EBITDA of 400,000 without the benefit of approximately 1.6 million of access charge savings enjoyed by the long-distance business. The increase in EBITDA over the prior year was accomplished in spite of increases in our local loop cost, increases in loop cost are being partially mitigated by our efforts to move our customers off of rented loose and wholesale service and on to our own facilities.

At quarter end, we had 12,800 DLPS lines in service, and we estimate that 20% of our access lines are currently provision completely on our own facilities. We experience the decrease of approximately 700 access lines during the quarter and at quarter's end we had approximately 111,900 access lines in service. Our access lines account increased by approximately 1300 over the prior year. We estimate that we continue to have a statewide local access market share of approximately 24%.

Residential customers represent about 61% of our lines. Business customers are approximately 36%, and Internet access customers have shrunk to about 3%. Approximately 85% of our lines are provided on our own facilities by using lease local loops or UNE platform, less than 6% of our lines are provided using UNE-P.

In January 2005, we applied to the RCA to expand our existing local telephone certification, for the provision of competitive local service. In our application, we propose to provide local exchange service to 5 existing service areas in competition with the existing service provider, which includes 15 additional communities. In addition, we requested approval to offer competitive local services in 6 communities using only our cable facilities. Those communities are Wrangell, Petersburg, Sitka, Seward, Bethel and Nome. RCA has put the application is on notice and we expect a decision from them no later than September 2005.

We're continuing our efforts to gain authority to provide local service in the Matanuska Valley and Eagle River areas. We filed the petition for arbitration with the RCA on July 15, 2005, and expect arbitration to be concluded within the 135-day statutory deadline. Negotiations are continuing while the petition for arbitration is pending.

Internet Access Service, the Internet business enjoyed a very strong quarter. Revenues for the second quarter totaled 7.5 million as compared to 6.5 million in the same quarter of prior year, representing an increase of more than 15%. Revenues were up 2.7% on a sequential basis. Quarterly Internet EBITDA reached 3 million, that compares to 2.2 4 million in the earlier quarter and 2.96 million in the EBITDA in the preceding quarter.

We deployed another 900 cable modems during the quarter, and we now have approximately 70,200 units in service, approximately 13,400 more than we had a year ago. We also have more than 1000 DSL subscribers. Approximately 99% of our cable homes passed are able to subscribe to our cable modem service. As expected we are continuing to see declines in the number of dial-up customers.

We are seeing a decline in the average rate per customer per month due to our aggressive marketing of entry-level modem service and the related effects of shared [ph] pricing and we expect this to continue for the near term. Once our entry-level customers are exposed to the benefits of additional modem speed, we expect our average rate per customer to begin to trend to backup.

Other items of interest, during the second quarter, we used approximately 1 million of our remaining credit with MCI. Usable credit is recorded as a reduction of bad debt expense. We used 1.1 million of the credit in the prior year quarter and recorded a benefit of approximately 900,000 in the first quarter of this year. At the end of the quarter, we had a remaining unused credit of approximately 1.8 million. We are continuing to record the remaining credit as we use it. And we currently expect the credit to be depleted late this year or early next year.

We continued our stock repurchase program during the second quarter. During the quarter we repurchased for retirements an additional 359000 shares at an average price of $8.34 per share. In addition, we purchased the remaining Series B preferred stock owned by Toronto Dominion Investments, which eliminated a potential overhang of 778,000 shares of Class A common stock. With that purchase and subsequent retirements, we no longer have any preferred stock outstanding.

Retirement of the preferred will allow us to avoid what had been 2.3 million per year in preferred dividends. Since we initiated the stock repurchase program a year ago, we've reduced the number of fully diluted shares at the current share price from 63.1 million shares to 57.3 million shares representing a decrease of 9.2%. The shares were repurchased at a weighted average price of just over $9 per share.

Our former Chairman, Mr Don Fischer indicated during the last quarter meeting that he did not wish to serve another term as Chairman. Don had served as our Chairman since Carter Page [ph] stepped down in June of 2002 and have served on our board for more than 25 years. He continues to serve on our board. The Board elected Mr Steve Brett to replace Don as Chairman. Steve has been a Board member of GCI since early 2001 and previous to that he had served as other Counsel to the Board for almost 20 years. We wanted to publically thank Don for his contribution as Chairman and also to welcome Steve to his new assignment.

Guidance and economic prospects, as I mentioned, we are pleased with the overall results for the first half of the year. The Alaska economy continues to be strong, our business is performing well. Last quarter, we forecasted revenues and EBITDA for this quarter will exceed amounts generated during the first quarter. Revenues were 4.2 million higher than the first quarter and EBITDA we generated surpassed the quarter by 1.9 million. Our guidance for the full year remains unchanged at 430 to 440 million in revenues and a 144 to 146 million in EBITDA although it looks today like we may approach the high end of the range with respect to revenues. We are projecting record revenues for the third quarter and expect EBITDA to surpass the amount generated during the second quarter.

Liquidity and capital expenditures, our liquidity position remains solid. We entered the second quarter with more than 17 million in cash and 44.5 million available under our revolving facility. I mentioned last quarter that our existing Senior facility will require quarterly amortization of principle of $8 million per quarter beginning at the end of the first quarter of next year, in addition to the 6.4 million annual amortization required under our Satellite facility. That fact and favorable market conditions will lead us to amend or replace our existing Senior and Satellite facilities. We expect to have that project completed during the current quarter. Our new facility is expected to allow us to continue our stock purchase program at no less than the current rate of $5 million per quarter.

We invested approximately 23.3 million in capital expenditures during the second quarter, investments were made in the following areas. Long distance, 3.5 million, satellite broadband, 2.5 million, cable and entertainment, 4.3 million, local services, 6 million, internet access services, 1.1 million, enhancements to our undersea fiber networks, 0.6 million; and administrative support, 5.3 million.

We estimate our maintenance capital requirements are approximately 25 million per year. We are currently expecting our capital expenditures for the year to total approximately 85 million, which represents the high end of the range that I discussed last quarter. Our capital expenditures have been loaded towards the first half of the year and we expect a corresponding decrease during the last half of the year. To recap, our cash resources and uses for the quarter on a simplified basis, we generated approximately 36.4 million in EBITDA, out of that we spent 23.3 million in CapEx and 8.4 million in interest expense leaving 4.7 million available for other items. Approximately 317 million of our 474 million in debt is fixed rate debt. Cash interest expense at current rates on our existing facilities is now running at approximately 33.7 million per year. Compared to the last two quarters, annualized cash flow of approximately 141.8 million. Our cash interest coverage is approximately 4.2 times and our leverage at quarter's end on net debt is just over 3.2 times cash flow. On gross debt, our leverage is at comfortable 3.34 times. That concludes my prepared remarks and we will now be happy to answer your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instruction]. Our first question comes from Liam Burke of Ferris Baker Watts.

<Q – Liam Burke>: Ron, John, how are you today?
<A>: Just fine Liam.

<Q – Liam Burke>: Ron on the DPL schedule for your 25,000, have you made any headway on the equipment for the MDU?

<A – Ronald Duncan>: I still expect to have that resolved by the end of the year. I don't know whether it will be resolved in time to make any difference for this year's numbers but we are maintaining the target of 25,000 by the end the year. We have several alternatives under evaluation for the MDU. The principal provider that we would like to use [indiscernible] continues to slip their schedule somewhat to our frustration. But if their box isn't successfully deployed by year-end, we will have an alternative in place, that's about all of I have got for right now on that one.

<Q – Liam Burke>: Okay, and John, that 70,200 cable modem subs, what percent of those are entry-level or entry-level modem users?

<A>: Liam, [indiscernible] answer there.

<Q – Liam Burke>: Okay, fair enough. Thank you.

<A>: The reason we give you the average revenue per modem was, so you could, sort of, track the trends there. We think the breakout of whose is on what plans is competitively, sensitive, Liam.

<Q – Liam Burke>: Okay, that's fair enough. Thank you.

Operator: Thank you. Our next question comes from Ted Henderson of Stifel Nicolaus.

<Q – Ted Henderson>: Thank you. Just regarding the CapEx, I understand that they are loaded on the front end, to hit your guidance here, you going to run roughly about an average of 18 million in each of the last two quarters. What category, John, would you say specifically you expect to see that, that pair back in the next two quarters?

<A – John Lowber>: Well we talked a little bit about, last quarter about the effort that we are putting in on the IT front. And that is coming to a conclusion. I think we are going to live with our new application, over the Labor Day weekend. So.

<Q – Ted Henderson>: That's your net, admin 5.3 million category.

<A – John Lowber>: Yeah, I think the first quarter number was close to that too. So that's going to diminish pretty drastically once we get passed the, to go live on that.

<Q – Ted Henderson>: Okay and so that's probably the main category than.

<A – John Lowber>: Yeah that's the biggest front end loaded.

<Q – Ted Henderson>: Thank you. And also on, with regard to data and digital adds, just relative to the last 4 to 5 quarter, the adds looked a little bit low and I was just curious, any specific reasoning, any thing that you guys identified. Especially in the data, I think 900 adds, I think, is what I had for the quarter. And just curious if there is any explanation, why that number seemed to dip, pretty much relative to last 4 to 5 quarters?

<A – John Lowber>: I think it's just an aberration, I expect to see that continue to grow and pick back up a little bit. Some of it may be focused on a couple of other products during the quarter. We were getting launched on some of the wireless and a few other things. But I would expect to see that trend back up toward the, closer to the numbers you've seen in the past, in the last 2 quarters of the year.

<Q – Ted Henderson>: Okay, thank you.

<A>: Yeah, Ted

Operator: Our next question comes from Anthony Kremlin [ph] of Deutsche Bank.

<Q>: Hi guys, thanks very much. Two questions, first, we still really are carrying much on mobile, and I was wondering if you can, kind of, just update us where you stand with respect to the agreement you had signed with Dobson? I know you guys were taking your time for fear that the network up there wouldn't meet the expectations of the customers when you brought them on, but Dobson's last public comments on our conference call were that they had got all those problems behind them, and were now, kind of, up to snuff with their GSM development. Can you kind of update us on where you stand with, sort of, more aggressively deploying mobile into the bundle?

<A>: Sure, we concur with Dobson's assessment that the network is largely in line at this point, and we are continuing our ramp up of the marketing efforts for the mobile service, if we're not at completely full force on the marketing yet, we're coming close. We are pleased with the results we are seeing. I think the results for this quarter had 1.5 million and more in mobile revenues than in the same quarter of the prior year. So...

<A>: I think that's the total amount.

<A>: I'm sorry, okay, 1.5 million in total and it was up...

<A>: 0.5 million.

<A>: I was up 0.5 million over the prior year. Okay, so we are in the market with that product. It's not the centerpiece of what we're marketing yet, but as our confidence in it grows, I think you'll continue to see progress on that front. We think that the exposure that we probably had in a bundle as a result of that product in prior quarters is now or as a result of lack of that product in prior quarters, is now substantially diminished.

<Q>: What bucket is that appearing in that revenue?

<A>: That shows up in the long distance revenues right now.

<Q>: That's in LD, and I guess, at some point that business gains greater relevance through additional revenue, you – would you break that out to kind of give us more of a segment view of how wireless is developing?

<A>: That's a question for the accounting norms to tell us how we have to report significant lines.

<A>: Yeah, just to give you a little color on that, Anthony, we – in this presentation, when we're talking about our business line and so on, it shows up in the LD. The accounting rules in the segment reporting in our filings, you'll find it, at least for now in the other category. But we'll add a little color in the narrative in the D&A that breaks out the wireless, so you can monitor what's going on there. Ultimately it may qualify as a separate segment. We will see. But for now, it's in the other category in the filings.

<Q>: Great, and one final question. You have had a, I'll call it modest stock buyback program going on for a while now. Valuation on the stock hasn't changed a whole heck of a lot, I'm wondering what your appetite would be to perhaps accelerating that or would you consider taking leverage up to do something more aggressive on the share buyback front?

<A>: We have looked numerous times of the possibility of stepping the leverage up for buying, we haven't yet been persuaded that there is a way to buy a material block-in on the front end without creating a short-term spike in the price, and that does not seem terribly efficient to us. So at this point, we anticipate just continuing the program of repurchases out of the free cash flows, but if you've got a large block of stock that you'd like to offer to us, we'd certainly take a look at it.

<Q>: And final question, could you talk a little bit about the competitive response in the market as you've transitioned some of your lines over to DLPS. I guess you are calling for the $25,000 number for the end of the year. Have you seen any kind of competitive response back from ACS, as you start provisioning stuff on your own network?

<A>: We haven't seen any competitive response targeted specifically at the DLPS line. ACS has certainly improved their competitive stands in the marketplace in the last 12 to 18 months. They continue to lead with their wireless product and to do a very good job with that, they have become a much more worthy competitor over the last 18 months, and I think we're seeing some share stabilization across the market. Although I'd noted that AT&T continues to diminish significantly with their presence in this market, and I think that both of ours and ACS' gains have continued to come from AT&T's expense as well as increases in overall consumer expenditure. I think both, we and ACS are driving average revenue per customer up with new product. So net, net no target response with the DLPS, but a much better competitive position from them all the way around and the market stabilizing more and more as a two player market.

<Q>: Great, thank you very much.

Operator: Our next question comes from Donna Jacques [ph] of [indiscernible] Partners.

<Q>: I had two questions, on the universal service fund, on your stock at there with AT&T, any sort of visibility on the timing of when that might be resolved?

<A>: On the dispute over the calling card revenues?

<Q>: Right, yeah, exactly.

<A>: That's in an arbitration proceeding in front of the State Regulatory Commission right now. We would be happy to settle the issue if AT&T was motivated to do so. I have never had any luck predicting when or what AT&T would do, so I will refrain from doing that at this point. If the regulatory process runs its full course, its likely to be some time into next year before we see resolution of that.

<Q>: Okay. And then on your wireless strategy, can you, are you – you know, a number of cable players down in lower 48 are playing around with the idea of enhancing the bundle by doing sort of a Wi-Fi, a home roaming kind of area within the home network, I don't know, with just a duopoly in Alaska, if you feel that is necessary, but, anything that you are thinking strategically that would be a little different from just offering GSM verses Alascom to [ph] GROSS MARGIN

<A>: We are very intrigued by the Wi-Fi home network and the home roaming. We think that there should be some are interesting opportunities there both to offload sales congestion in the residential areas and to enhance the quality of the product for consumers, and that's one of several products we're looking at, I note as an aside that the FCC's recent 911 order creates some more technical hurdles to that product now because its difficult to specifically identify the locations when you are home roaming since it would work both off your cable modem and your neighbors cable modem, but very attractive product and one that I think we want to work to develop over time, not likely to launch in the next 6 to 8 months, but it could happen next year.

<Q>: Okay. Thank you.

Operator: Thank you. Our next question comes from Todd Rosenbluth of Standard & Poor's Equity Research.

<Q – Todd Rosenbluth>: Hi, thanks, couple of quick questions. Regarding the wireless, was there spending in SG&A. Did we notice that – is that should have been noticeable enough in the most recent quarter because the long distance SG&A jumped up a little bit?

<A>: I don't think Todd, anything particularly in that area

<Q – Todd Rosenbluth>: But is that something, that's something that as you have roll it out that we would see it more coming in that LD bucket, correct?

<A>: Yes, we, kind of, just redirect what would be a constant stream of marketing dollars in different areas. So, you know, we re-emphasize one thing and then redirect it in another area particularly in wireless of late. But, the G&A area, you know, we are seeing continued creep in cost, you know, personnel, health benefits, all that nonsense and we are taking a look at that and we are going to look at, see if we can find some ways to move the trends back in that area.

<Q – Todd Rosenbluth>: That's sounded like a work force reduction? I won't imagine you would be disclosing over the phone to us. But it does sound like a work force reduction in the mix and I want to let you [ph] answer that one. And in the local market, is that something, presuming it goes through and you get the approval you wanted, is that something that, by the fourth quarter you expect to be in these new markets?

<A>: No, if we got the authorizations this year, which we anticipate, we should be in the new markets some time next year. Following the authorizations you have to start a negotiated process with the local phone companies to arrange through, you know, connection and number of portability and those things never move as quickly as you would like. But by some time, probably the later portion of next year we hope to be rolling out in the first of those markets.

<Q – Todd Rosenbluth>: Okay and then lastly you commented on, with somebody else's question. But share buy back is planned to still spend roughly the amount, market conditions, okay for the rest of the year?

<A>: At this point the authorization from the Board is 5 million a quarter. The new debt agreement should clear away any remaining restrictions that we have been dealing with on a quarter-by-quarter basis from the banks. So, and we have, have not had significant difficulty buying in that level of shares, so we'll continue on that pace and probably reevaluate as the free cash flows continue to grow.

<Q – Todd Rosenbluth>: Okay, thank you.

Operator: Thank you. Our next question comes from Steve Stephen Sweeney of Jeffries & Company.

<Q – Stephen Sweeney>: Hi guys, good morning. I wanted to know if you could, sort of, give us an update or your thoughts on any type of economic catalyst for the Alaskan economy specifically oil drilling in the Arctic wild life refuge or a natural gas pipeline or any other things you might see in the horizon?

<A>: Well we certainly don't share your pain [ph] as $61 a barrel for oil. It does a lot more for us than it does are for you and certainly we're seeing that in terms of the impact on the Alaska State Treasury and the consequent ripple through effects to the Alaska economy. I remain extremely bullish on the prospects of a gas line. I believe the Governor will be bringing something back to the legislature this year for approval and we will be at the front end stages of constructing a gas line sometime early next year that's 9 to 10-year overall process with a very significant impact on the Alaska economy. The economy remains good up here. It's been a good season for tourists, and we see nothing but continued positive signs in the economy and feel strong about the general conditions with we think a significant amount of upside from the gas line.

<Q – Stephen Sweeney>: Okay, great thank you.

Operator: Thank you, our next question comes from James Lee of Decision Economics.

<Q – James Lee>: How is the going guys?

<A>: Hi James.

<Q – James Lee>: Ron, can you sort of talk about the giving more color on the LD side, obviously MLU [ph] has bounced back pretty nicely during the quarters so as the margin and can you just talk about the traffic pattern a little bit, what happened there? And also on the margin side 34% EBITDA margins, a pretty good for the quarter. I was wondering that kind of level is that sustainable going to second half?

<A – Ronald Duncan>: I think what happened on the LD side was that carrier traffic came back. We've obviously been working to drive that traffic as you know some of it is beyond our control relating to decisions that the carriers make in the lower 48 but we have also taken some efforts to target some smaller level carriers and put their traffic directly on our network. And I think, we are seeing the payoff from some of that. The margins are in – in some parts directly related to volumes that there is leverage from the traffic on the LD side and as the traffic comes up, you are offsetting a fixed level of cost with the higher volume of revenues, that's got a lot to do with the higher margins for the quarter. At this point, we see no reasons to anticipate any change I the traffic levels that we are running, but the same carrier that we always have the carrier traffic levels are subject to volatility beyond our control whether it will be some big ships in the and the players in the lower 48. But, cautious optimism that we will sustain existing levels through the rest of the year, subject of course to the seasonal trends, we will see traffic drop off in the fourth quarter, as we always do. Because, economic activity up there tends to go down with number of hours of daylight.

<Q – James Lee>: That makes sense and also Ron can you sort of comment about your contract status. What's Sprint MCI and competitor ACS made a lot of noise about grabbing that market share from you. And I wonder you can give us an update on that?

<A>: Okay. Well, we announced earlier in the year that Sprint contract had been extended through 2009, and we just completed an extension of the WorldCom contract, or the MCI contract through…

<A>: It was 5 years.

<A>: It's a 5-year extension, so it will be 2010. So we've think we got the carrier contracts where we need them at this point, and we don't think there are any meaningful opportunities for our competitor on that front in the near-term.

<Q – James Lee>: Okay, good. Lastly, on the cable modem side, I'm looking at this quarter net ads, obviously its robust as prior quarters, but one thing that I noticed was that, DSL net ads, I think for first time actually, exceeded your cable modem net ads, can you sort of comment about the competitors situation there? Is your competitor doing more promotion in marketing than you are, and I just wanted to figure out what the dynamics is on the broadband side?

<A>: They have improved the quality of their products somewhat. They're getting a little better at delivering speeds in multiple ranges, and they pushed the product very aggressively in the first half of the year with a attractive bundle that they had, we've responded to that bundle on a number of fronts, so I think that they had a little bit of an advantage in the market with a new bundle that we haven't completely responded to the second quarter, but i think you will see some changes there. And as I said earlier, I expect our number of ads to go back up. I think – I don't think too many of their ads came at our response, so I think that their ads probably came from their own customer base as we continue to see an increase in overall penetration of high-speed Internet in the marketplace.

<Q – James Lee>: All right, thanks Ron. Congrats on a very good quarter.

<A>: Thanks Jeff [ph].

Operator: Thank you. [Operator Instructions] Our next question comes from Ari Moses of Kaufman Brothers

<Q – Ari Moses>: Hi, Yeah, I was wondering if you could talk a little bit more about the local business in terms of the margin, just looking at it, I know you talked about the 1.2 million, I guess revenue impact in the first quarter and banking that out. Looks like the margins improved nicely in the quarter, you know, I was little bit surprised actually, but you know, given that for local, I think you are still spending. I was wondering if you could talk how the BOPS, you know the play out of BOPS conversion, how that's helping your margin versus your spending on getting new local subs and kind of where you expect this trend to go. And also, whether you can, you know, whether there is a break-even that you can have identify in terms of number of subs that really have to be deployed on BOPS to offset the types and increase in your line cost?

<A>: I guess what you saying there Ari, is that, you know, as we move more and more of our customers on to our own facilities, our local business is going to look more and more like what you would traditionally expect [indiscernible] like to look like that. Their margins are in the, you know, 50% range and are started out in the 30s and they are creeping up as you are noticing. Just a simple fact that as we, you know with each line that we add on to our facility, we avoid increasing cost. I think the loop rate and anchorage now is north of 18 bucks and Fairbanks in Juneau, it's, you know its north of 20 if I remember right. So you know the higher those cost, yes, the more you avoid as you move the traffic onto your own networks. So you are seeing that at play here. In terms of the economics, its pretty to use to calculate just for every line that we add, we avoid a loop cost either in rental or in some cases, you are moving wholesale customers on which we make basically nothing today. So you put it all altogether and its doing kind of what we expected it was going to do.

<Q – Ari Moses>: Okay also just a detailed question. You talked about debt refinancing that you seems to be doing in the quarter. Were you saying that, that you would actually be eliminating the pre-payments, the principal payment schedules and you would actually be getting rid of those, would you be lessening them, what is exact goal of the refinancing?

<A>: It is basically going to refinance [ph], which means that we are going to throw out the existing amortization schedule. We will probably combine the satellite facility with the existing senior facility and have one facility going forward. I'm expecting probably about a 6 year bullet on revolver and probably a 7 year term on the term fees, with probably 1% amortization out with a bullet at the end of the 7th year or over 2 payments probably in the 7th year. So basically removing I think almost completely the amortization here over the next 6 or 7 years, giving us lot more flexibility, relaxed covanance and so on. So it should be a good deal for us and we are well into that process, so we know kind of what the thing is going to look like. Just a matter of getting it closed at this point.

<Q – Ari Moses>: Okay. All right, great. Thanks, guys.

<A>: And just one other thing too, as we expect our rate to drop, too, and probably will avoid probably somewhere in the 1.5 million plus in interest rates by virtue of the lower rates or interest expense by virtue of the lower rates

Operator: Thank you. And at this time, I am showing no further questions.

John M. Lowber, Chief Financial Officer, Senior Vice President, Treasurer, Secretary

All right then. Until November, thank you all for participating, and we will get back to work.

Operator: That concludes today's conference call. Thank you for your attendance.